

<p align="center">U.S. Department of Labor Employment and Training Administration Washington, D.C. 20210</p>	CLASSIFICATION UI
	CORRESPONDENCE SYMBOL TEUMI
	DATE May 30, 1990

DIRECTIVE : UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 29-90

TO : ALL STATE EMPLOYMENT SECURITY AGENCIES

FROM : DONALD J. KUBICK
Administrator
for Regional Management

SUBJECT : Federal Register Notice on State Unemployment
Trust Fund Cash Management

1. Purpose. To transmit copies of the cited document which was published on May 16, 1990.

2. Background. The attached Federal Register notice describes the proposed UI cash management program and requests comments from interested parties. Since all State Employment Security Agencies (SESAs) are affected, ETA is sending a copy of the notice to all SESA Administrators to facilitate their participation in the comment process.

3. Action Required. SESA Administrators are requested to:

a. Carefully review the Federal Register notice, particularly in the context of current State cash management environments and future impact of the program.

b. Share the notice with appropriate State officials involved in UI cash management, especially State Treasurer and Comptroller offices, and encourage their comments.

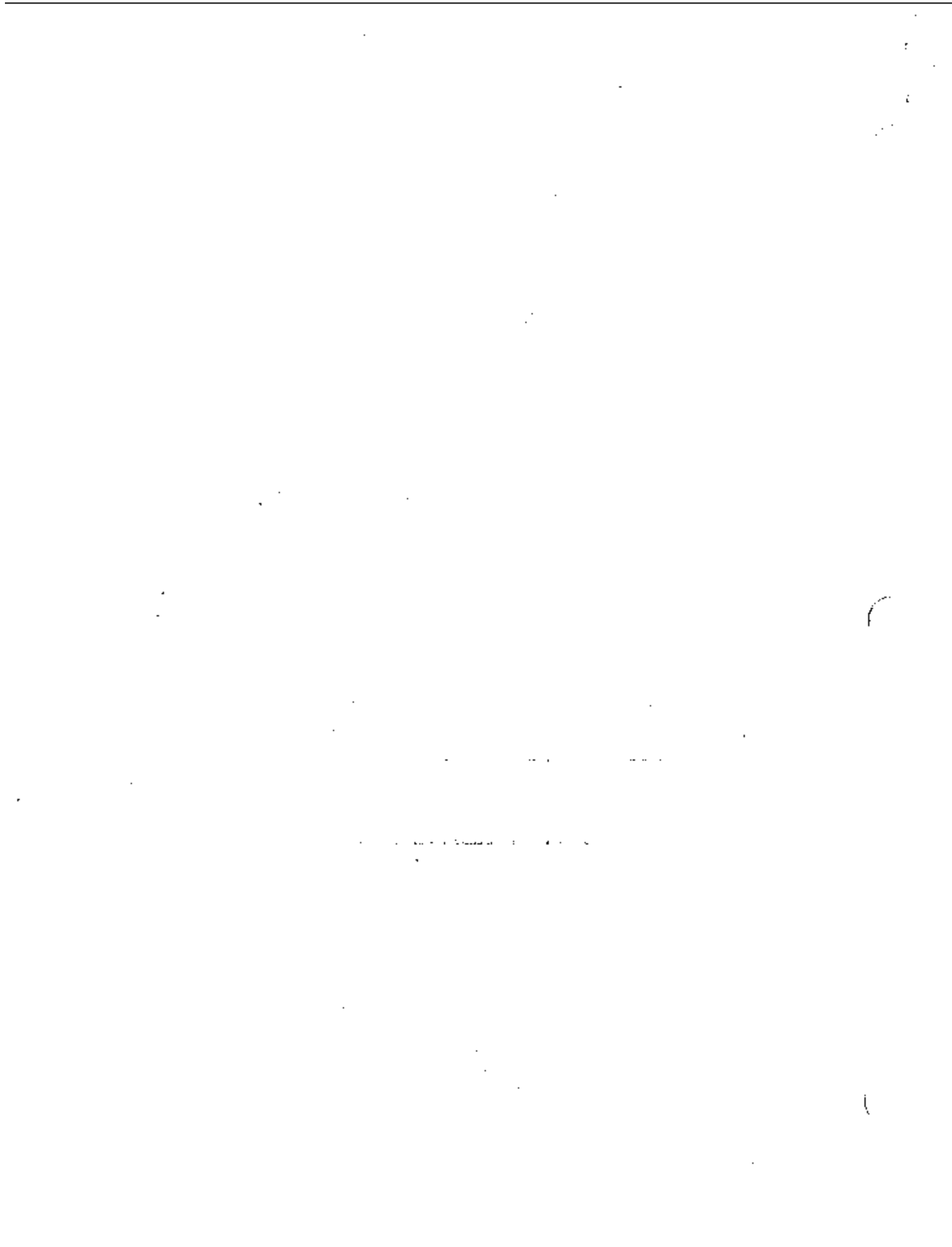
c. Submit comments to DOL in accordance with instructions in the notice.

4. Questions. Direct questions to the appropriate Regional Office.

5. Attachment. Federal Register notice.

REVISIONS	EXPIRATION DATE July 31, 1990
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DISTRIBUTION



comment. In addition, input on key components of the proposed program, especially standard bank services, performance measurement, and reports, was solicited and received from the U.S. Treasury Department (Financial Management Service), ETA Regional Offices (Field Memorandum No. 97-86), and the States (Unemployment Insurance Program Letter No. 29-80). Revised program components resulting from Federal and contractor analysis and State recommendations concerning standard bank services, performance measurements, and reporting requirements have been combined to create the program presented for comment in this notice.

B. Major Design Directions

The program was designed to maintain the safety of unemployment funds and the integrity of the cash management process while maximizing the value of unemployment funds (whether in the UTF or in State clearing and benefit payment accounts). Additional design considerations and objectives were to provide flexibility for State policies and practices within the framework of modern cash management technology, and to concentrate Federal oversight efforts on cash management components essential to the Department's responsibility for ensuring the security and integrity of unemployment funds.

The program is based on generally accepted and proven cash management principles which are combined with statutory deposit and withdrawal requirements to form the basic requirements of the program. It recognizes the varied State cash management environments, providing flexibility within a unified design. State flexibility includes negotiating banking arrangements, selecting bank services, and paying for them. ETA oversight concentrates on expedited deposit of employer contributions, State management of unemployment fund account balances, periodic reviews of cash management operations, and providing technical assistance to States in bank account administration and other cash management functions.

C. Comments

The program is presented for information and comment of all parties interested in State unemployment fund cash management. Comments on the design and contents of the State unemployment fund cash management program are encouraged. However, specific comments addressing ETA proposals on the following areas, explained in this notice, are requested:

1. Use of compensating balances for standard bank services:
 - a. Definitions—standard bank services; non-standard bank services;
 - b. Inclusions/exclusions to list;
 - c. Lockbox provisions.
2. Accounting and tracking unemployment funds flows:
 - a. Separate clearing account for incoming funds;
 - b. Separate benefit payment account for outgoing funds.
3. Revised performance measures:
 - a. Deposit measure;
 - b. Zero excess balance measure.
4. Record keeping and reporting requirements:
 - a. Use of sample to obtain data for deposit measure;
 - b. New report, modeled on bank account analysis, for zero excess balance measure.
5. State cash management program expectations/basis for oversight:
 - a. Banking systems;
 - b. Bank procurement;
 - c. Collection systems;
 - d. Disbursement systems;
 - e. Fund transfer systems;
 - f. Cash position management systems.
6. Focus and direction of ETA oversight.
7. Required/desired technical assistance from ETA.

D. Next Steps to Implementation

After comments are received and assessed by ETA, a final Federal Register notice, containing a Unemployment Insurance Program Letter on the official cash management program elements and requirements, will be published in July, 1990. ETA is also planning to conduct technical training sessions on the final program for State cash management staff, in August 1990, prior to institution of new performance measures and reports. ETA Regional Office and National Office staff will be available to provide technical assistance during the implementation process.

E. State Unemployment Fund Cash Management Program

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I. Key Elements

The dual goals of cash management are to expedite deposits and defer disbursements until needed to redeem checks or warrants. From a UI standpoint, that means accepting and depositing receipts into clearing accounts immediately, transferring funds in clearing accounts to the UTF as soon as possible, and withdrawing funds from the UTF only when immediately needed to redeem benefit checks or warrants. However, even the most efficient cash management systems will still experience residual funds in bank accounts that cannot be moved timely. Effective unemployment fund cash management ensures that cash balances provide value as compensating balances.

The following section spells out the Department's requirements in the revised cash management program.

A. Prohibition of State Investment

In accordance with SSA, sections 304(a) (4) and (5) and 304(b), and PLTA sections 3904(a) (3) and (4), only the Secretary of Treasury may invest unemployment fund monies. These statutory provisions have historically been interpreted as prohibiting direct investment of unemployment funds by a State and limiting the use of State funds in the UTF to benefit payments (with certain exceptions not pertinent to this discussion). Furthermore, State unemployment funds may not serve as compensating balance requirements for Federal or other State funds.

States may utilize interest-bearing demand deposit bank accounts, e.g., Negotiable Order of Withdrawal (NOW)

accounts. However, all interest earned on unemployment funds in such accounts must be returned, without reduction for bank service costs or any other cost, to the State account in the UTF.

B. Use of Compensating Balances for Standard Bank Services

State unemployment funds may be used as compensating balances, but only in the amount necessary to offset commercial bank charges for standard bank services relating exclusively to the unemployment funds accounts. Compensating balances of State unemployment funds may not be used to offset commercial bank charges, standard or otherwise, relating to Federal or other State funds. However, Federal funds maintained in benefit payment accounts may be supported by compensating balances consisting of Federal funds, on the same terms and conditions as compensating balances of State unemployment funds.

Standard bank services are stand-alone, non-credit related services provided by commercial banks (such as account maintenance, funds availability, and electronic transfers), which are considered necessary and/or customary for sustaining a commercial bank account. Earnings credit derived from compensating balances of unemployment funds may only be used to offset the cost of standard bank services relating to the unemployment funds accounts. Services performed by State Treasurers which are similar or identical to certain standard bank services are not included in this definition.

Non-standard bank services are bank services not necessary or customary for sustaining a commercial bank account or those services that are not necessarily banking functions but which a State elects to have a bank provide. Compensating balances of unemployment funds may not be utilized to pay for non-standard bank services. States may elect to utilize non-standard bank services, e.g., wage record keypunching in a lockbox arrangement; however, Title III administrative grants or other State funds must be used to pay bank charges for non-standard services. Any bank services paid with Title III grant funds must be determined by the Department to be necessary for proper and efficient administration (SSA section 303(a)(1) and 303(a)(6)).

Appendix A of this notice provides a listing of bank services currently utilized by States which meet the definition of standard bank service and for which compensating balances of unemployment funds may be used to

offset unemployment fund bank service costs. Lockbox services will be considered standard services only when supporting feasibility studies for alternatives to the lockbox are conducted and documented which substantiate the cost-benefit of such services. Such studies must be no more than three years old. States that have conducted feasibility studies within the last three years will be considered to have met this requirement. In addition, use of the Federal lockbox system, if one is located in the State, must be considered in all feasibility studies.

C. Accounting and Tracking Unemployment Fund Flows

To comply with the legal requirements for the deposit of unemployment funds and withdrawal of unemployment funds in SSA and FUTA, all unemployment funds must be identifiable at all times, separately and completely accounted for, so that unemployment funds and the associated types and volumes of transactions can be tracked as they flow through the State bank accounts. To accomplish this, incoming funds must be maintained in separate clearing accounts from outgoing funds (benefit payment accounts), except that States may pay refunds of tax overpayments out of their clearing accounts as provided in SSA section 303(a)(4) and FUTA section 3304(a)(3). The accounts, however, can reside at the same bank or at different banks. The crux of this requirement is the longstanding interpretation of the Federal requirements as treating receipts for the State unemployment fund as becoming a part of the fund at the instant of receipt by the State, or by an agent of the State, and as remaining a part of the fund until actually paid out of the fund in cash or redemption of a check or warrant drawn on the fund.

Incoming funds as used here means all moneys received by a State for the State's unemployment fund, from any source other than the UTF, including sums erroneously paid into the unemployment fund, all tax collections and reimbursements in lieu of contributions received from employers, reimbursements from transferring States for unemployment benefit payments made under the Interstate Arrangement for Combining Employment and Wages, penalty and interest, and benefit overpayment recoveries. Penalty and interest may be excluded only if the State law provides for the payment of such collections to another State fund. Separate accounting for funds received must permit tracking of all funds from moment of receipt by a State, or an agent of the State, through time of

deposit in the State's account of the UTF.

Outgoing funds include the payment of unemployment compensation, exclusive of the costs of administration, and refunds, and other exceptions permissible under sections 303(a)(5) of SSA and 3304(a)(4) of FUTA. Separate accounting for such funds must permit tracking of a State's unemployment funds from time of receipt by the State (or an agent of the State) through time of redemption of a check or warrant.

If penalty and interest collections are deposited in the clearing account, they are subject to the accounting and tracking provisions of this section. Similarly, Federal funds drawn down from the Federal Employees Compensation Account (FECA) for the payment of unemployment compensation under the Unemployment Compensation for Federal Employees (UCFE) program and Unemployment Compensation for Ex-Servicemembers (UCX) program are subject to the accounting and tracking provisions of this section if such payments are made from the regular benefit payment account of the State.

D. Fund Transfer Mechanisms

States must use the fund transfer mechanisms designated by the Department, the U.S. Treasury, and the Federal Reserve System (currently the State Unemployment Data System (SUDS) and FEDWIRE).

E. Performance Measures

Expediting the deposit of all money received for the unemployment fund of a State, including employer contributions, into the State's account in the UTF and limiting the daily withdrawal of funds to the amount necessary for benefit payments are major goals of effective UTF cash management. Achievement of these goals is integral to State compliance with the immediate deposit and limited withdrawal requirements of SSA and FUTA, the process of minimizing dormant funds, and maximizing earnings for the States' UTF accounts (and FECA) through investment by the Secretary of Treasury.

Measures. Quantitative measurement of State cash management performance will be performed for:

1. Timeliness of deposits in State clearing accounts, and
2. Excess balances (transfer/withdrawal).

Compliance Criteria. A State will be deemed to have substantially complied with the Federal immediate deposit and limited withdrawal requirements if it:

federal register

**Wednesday
May 16, 1990**

Part IV

Department of Labor

Employment and Training Administration

**Federal State Unemployment
Compensation Program; State
Unemployment Fund Cash Management
Program; Notice**

DEPARTMENT OF LABOR

Employment and Training
AdministrationFederal State Unemployment
Compensation Program: State
Unemployment Fund Cash
Management Program

AGENCY: Employment and Training
Administration, Labor.

ACTION: Notice and opportunity to
comment on a proposed program to
improve State unemployment fund cash
management.

SUMMARY: The Employment and
Training Administration (ETA) is
proposing a revised State unemployment
fund cash management program
(hereinafter referred to as "program"),
intended to promote effective State
management of unemployment funds.
This notice addresses only State
unemployment funds, not Title III
administrative grant funds. The program
incorporates proven cash management
technology and affords States maximum
flexibility to design and administer
individual cash management programs
within broad Federal requirements. The
program will also help carry out the
Secretary's responsibilities for oversight
of the Federal-State unemployment
compensation program and the
withdrawal and deposit requirements of
the Social Security Act (SSA) and the
Federal Unemployment Tax Act
(FUTA).

This notice explains the requirements
of the program and requests comments
from all interested parties. The notice
also contains goals for the various State
cash management program components.
These goals will form the basis for
Federal reviews and technical
assistance on State cash management
practices and procedures in order to
promote quality program operations.
Comments on these elements are also
encouraged.

DATES: Comments must be received in
the Department of Labor by the close of
business on June 15, 1990.

ADDRESSES: Submit comments to Mary
Ann Wyruch, Director, Unemployment
Insurance Service, Employment and
Training Administration, U.S.
Department of Labor, 200 Constitution
Avenue NW, room S-4231, Washington,
DC 20210.

FOR FURTHER INFORMATION CONTACT:
James Herbert, Unemployment
Insurance Program Specialist, Division
of Program Development and
Implementation, Unemployment

Insurance Service, Employment and
Training Administration, U.S.
Department of Labor, 200 Constitution
Avenue NW, room C-4514, Washington,
DC 20210. Telephone number (202) 635-
0216 (this is not a toll free number).

SUPPLEMENTARY INFORMATION

A. Background

Unemployment benefits are primarily
financed by State taxes (contributions)
on employer payrolls. States deposit
unemployment taxes collected from
employers into clearing accounts in
commercial banks which then transfer
them electronically to individual State
accounts in the Unemployment Trust
Fund (UTF) in the U.S. Treasury. State
UTF balances not needed to pay
benefits are invested by the Treasury
primarily in U.S. Government securities,
and earnings from their investment are
deposited in the individual State
accounts in the UTF. Funds
requisitioned from the UTF to pay
benefits are transferred electronically to
State benefit payment accounts,
generally in commercial banks, to fund
benefit payments.

Section 303(a)(4) of the Social Security
Act (SSA) and section 3304(a)(3) of the
Federal Unemployment Tax Act (FUTA)
require the immediate payment of all
money received in the unemployment
fund of a State to the Secretary of the
Treasury to the credit of the UTF
established by section 904 of SSA.
Section 904(b) of SSA requires the
Secretary of Treasury to invest the
portion of the UTF not required to meet
current withdrawals. Section 303(a)(5) of
SSA and section 3304(a)(4) of FUTA
require that all money withdrawn from
the unemployment fund of a State be
used for the payment of unemployment
compensation exclusive of expenses of
administration. These statutory
provisions constitute the "immediate
deposit" and "limited withdrawal"
requirements, support the Department's
position prohibiting State investment of
unemployment funds, and form the basis
for the Department's oversight of State
cash management performance. The
Department currently uses three
performance measures to determine, in
part, State compliance with these
statutory requirements. These measures,
called desired levels of achievement
(DLAs), are: The timeliness of deposit of
all receipts into State clearing accounts
in commercial banks, the timeliness of
transfer of such funds from clearing
accounts to State accounts in the UTF,
and the amount of funds withdrawn
from the UTF for benefit payments

compared to actual payment
requirements.

Since these DLAs were instituted in
1981, changes in banking legislation and
advances in cash management
technology have compelled the
Department to re-evaluate the entire
Federal-State UI cash management and
banking system, including the
development of new performance
measures that are more responsive to
the current cash management
environment and realistic in terms of on-
going State unemployment fund cash
management and banking operations.

ETA recognizes that the cash
management environment has changed
dramatically in the 1980s and will
continue to change in the 1990s.
Specifically, implementation of the
Depository Institution Deregulation and
Monetary Control Act of 1980 has
increased competition among banks but
generally increased consumer prices for
bank services; improvements in
technology have allowed for quicker
movement of money because checks are
cleared more rapidly; electronic
payments have proliferated, increasing
timeliness of funds flows, availability of
funds, and decreasing float; and the
Federal Reserve FEDWIRE System
provides the capability for same day
delivery of funds requisitioned from the
UTF and immediate availability of
Federal funds.

The proposed Program has evolved
through several phases. In 1982-83 ETA
recognized that State cash management
systems were frequently inefficient,
resulting in lost interest in their UTF
accounts, lost value for unemployment
funds through excessive float and
dormant bank balances, and inaccurate
cash management reports. ETA also
recognized that its oversight capabilities
had not kept pace with evolving
technology and that little technical
assistance in cash management had
been provided States.

ETA commissioned a study to address
these issues and to review the entire
State/Federal unemployment fund cash
management system and recommend
improvements. After receipt of the
contractor's final report, the
Unemployment Insurance Service (UIS)
of ETA conducted extensive internal
analyses of the viability of the
recommendations and their potential
impact on State unemployment fund
cash management practices and
procedures. UIS also distributed the
report to States and other interested
parties and sponsored three briefing
sessions by the contractor to provide an
opportunity for discussion and

1. Deposits 85% of the total dollar amount of all money received for the unemployment fund, (including funds received from other States) by the State or by an agent of the State (e.g., a lockbox), into the clearing account by COB the business day after receipt by the State or agent of the State, and deposits all remaining receipts within two business days after receipt, and

2. Has a zero excess balance of unemployment funds over the level necessary for, and used by the State in, compensating balances with commercial banks (clearing and benefit payment accounts) to offset the cost of standard bank services over a one calendar year period. A State will be determined to have a zero excess balance if the average actual monthly compensating balance is $\pm 10\%$ of the average required monthly compensating balance for the calendar year for clearing and benefit payment accounts combined. Overcompensation in one account may be offset by undercompensation in another account for performance measurement purposes only (see appendix B for an example of performance measure computation).

State deposit performance will be evaluated by review of a sample of deposit transactions in the same manner as the current DLA. State zero excess balance performance will be evaluated on a calendar year basis from information provided on required Federal reports. Each State's performance relative to these performance criteria will be published in the annual Quality Appraisal report. States not meeting the performance criteria will be required to develop and implement corrective action plans as part of their annual Program Budget Plan (PBP) submittal.

Failure of a State to meet the desired level of cash management performance set forth above, or to show satisfactory improvement after having submitted a cash management performance corrective action plan, could result in a determination by the Secretary of Labor under section 303(b)(2) of the SSA and section 3304(c) of the FUTA of failure of a State to conform and/or comply substantially with the immediate deposit and limited withdrawal requirements.

These performance measures replace current DLAs. They are not Secretary of Labor standards.

F. Record Keeping/Reporting Requirements

Each State agency is required under the immediate deposit and limited withdrawal standards, and sections 303(a)(1) and 303(a)(6) of SSA, to

establish and maintain records pertaining to the cash management of unemployment funds, and to make all such records available for inspection, examination, and audit by such Federal officials or employees as the Department may designate or as may be required by law. Each State agency shall also make such reports to the Department as the Department may require and comply with Departmental requests for information to ensure the correctness and verification of such reports.

Records maintained must provide sufficient detail to track and verify the flow of all incoming unemployment funds (deposits) and outgoing unemployment funds (disbursements) and associated types and volumes of transactions through State bank accounts, including those controlled and maintained by elected officials of the State, from the date of receipt through the date of redemption of State benefit checks or warrants. If Federal or other State funds are commingled with State unemployment funds, records maintained must provide sufficient detail to distinguish one from the other.

Monthly state excess balance performance information will be provided by means of new Federally required cash management reports which, upon OMB approval, will replace the current ETA 9413 and 9414 reports. The new reports are based on bank-generated Account Analysis format and include the following individual data elements:

1. Average daily ledger balance.
2. Average daily float.
3. Average daily collected balance.
4. Reserve requirement.
5. Average daily available balance.
6. Earnings allowance on available balance.
7. Comprehensive list of bank services provided.
8. For each service:
 - a. Volume.
 - b. Unit price.
 - c. Total price, and
 - d. Available balance equivalent.
9. Total bank charges.
10. Total available balance equivalent, and
11. Net account excess/deficit for month.

A separate report identifying State unemployment funds is required for each clearing and benefit payment account maintained by a State in commercial banks and for all unemployment funds contained in commingled State accounts. Separate reports for each and every State Treasurer account containing:

unemployment funds, breaking out information for unemployment funds in these accounts, is also required. Such reports also must separately identify State unemployment funds and Federal funds.

II. State Program Components

In order to maximize overall efficiency of LTF cash management, various generally accepted, proven cash management techniques and procedures can be administratively implemented by States.

The preceding section discussed the Federal requirements for State cash management. This section describes cash management goals (and, as appropriate, requirements identified in preceding section) for the various components of State cash management programs which can be used by States in developing or assessing their cash management procedures and techniques. Effective cash management and effective State cash management programs are not static, fixed entities. The goals provided in this section are intended to provide a framework for the on-going improvement of State cash management directed toward a balanced, cost-effective mix of techniques for transferring and tracking unemployment funds (and FICA funds) through the banking and UTP system. These goals will be used by Federal staff in program reviews and technical assistance efforts.

A. State Cash Management Banking Systems

A State unemployment fund cash management banking system is composed of bank account structures and cash management policies and techniques which support the receipt collection process, disbursement of benefit payments and refunds, and transfers to and from the UTP.

These structures, policies, and techniques may vary from State to State; however, there are standard goals common to all systems. Each system should:

1. Encourage an efficient flow of funds through the banking system as well as to and from the UTP with physically separate clearing and benefit payment accounts;
2. Provide a definition and array of bank services required in a distinctive State environment;
3. Provide timely and accurate record keeping and reporting;
4. Meet cost-benefit criteria;
5. Meet State procurement criteria;
6. Ensure ease of monitoring and auditing the system; and

7. Ensure ease for both State and Federal review and reporting requirements, as outlined in this notice.

1. **Bank Account Structures.** Bank account structures are comprised of one or more bank accounts in which State unemployment funds are deposited. The accounts are identified as clearing accounts and benefit payment accounts. The clearing account is generally used for collection of tax contributions, while the benefit payment account is used for the payment of claims. Those States which use commingled State accounts deposit receipts and pay benefits out of accounts which are also used for transactions other than UI transactions.

States have considerable discretion in the establishment of their bank account structures. There is no requirement for the establishment of separate bank accounts for State unemployment funds (from Federal or other State funds). However, as previously indicated, all State unemployment funds must be identifiable at all times, separately and completely accounted for, so that all types and volumes of transactions can be tracked as they flow through State bank accounts. Further, State unemployment funds may not serve as compensating balances for Federal or other State funds. Finally, clearing accounts must be separate from benefit payment accounts although the accounts can reside at the same or different banks.

2. **Standard Bank Services.** States are permitted to select those bank services considered to be necessary for the efficient administration of UI bank accounts. The Department does not mandate, encourage, or recommend that certain services be required for UI bank accounts. That has been, and will remain, a State decision.

The Department does require, however, that only standard bank services relating to State unemployment funds may be funded with compensating balances of State unemployment funds. Any other bank services must be paid for from administrative grant funds or other State funds, and if paid from administrative grant funds, they must be determined by the Department to be necessary for proper and efficient administration (SSA sections 303(a)(1) and 303(a)(8)).

Appendix A provides a listing of bank services currently used by States which meet the Department's definition of standard bank services and for which unemployment funds may be used as compensating balances to offset bank service charges relating to unemployment funds.

3. **Bank Procurement.** Bank procurement in the process used to

obtain State unemployment fund bank services. The procurement process should obtain the highest quality service at a reasonable cost and comply with State procurement law. Compensation for bank services depends on various factors, including but not limited to, the cost of bank services used, the bank's earnings credit rate, reserve requirement, pricing formula, and State procurement requirements. States should conduct preliminary discussions with banks concerning pricing terms, compare bank fees with other States within the region and Federal Reserve District, and with bank fees published in price studies.

4. **Bank Compensation.** When a State has identified the bank services it needs and has included such services in its banking agreement, the bank must be compensated for providing them in one of three ways: direct payment of fees; maintenance of compensating balances; or a combination of fees and compensating balances.

The method used to compensate banks for services provided is exclusively a State decision. The only restriction is that compensating balances consisting of State unemployment funds may be used only to offset commercial bank charges for standard bank services solely for the State unemployment fund. To the extent that Federal funds from the FECA are included in the benefit payment account, commercial bank charges for standard bank services must be separately funded in one of the three ways mentioned above.

As noted in Section I.E. above, excess balances, i.e., available funds in State unemployment fund accounts above the amount needed to offset commercial bank charges for standard bank services, should approach zero over a one calendar year period. State efficiency in cash management and compliance with the immediate deposit and limited withdrawal requirements will be evaluated, in part, by determining the extent to which a State maintains only the amount of compensating balances required to offset bank service charges over a one calendar year period.

Month-to-month actual compensating balances may be greater than or less than required compensating balances during the one-year period. However, such balances should be regularly adjusted by States during the measurement period.

E. State Cash Management Procedures.

This section discusses certain cash management functions inherent to all collection and disbursement operations:

1. Collection processing and deposit
2. Disbursements and disbursement funding
3. Fund transfers, and
4. Forecasting benefit payment clearings and cash position management.

To enhance the efficiency of these functions, State cash management procedures should:

1. Provide an effective and consistent methodology for meeting the zero excess balance performance measure;
2. Provide continuity of UI cash management operations throughout the State;
3. Allow for the direct control of UI funds by the SEBA, or control in conjunction with a State Treasurer; and
4. Satisfy review and audit requirements through the implementation of documented, internally standardized cash management procedures.

1. **Collection Systems (Processing and Deposit).** Collection systems are designed to accept moneys for the State unemployment fund (e.g., employer contributions and miscellaneous other receipts such as reimbursable employer deposits). These funds must be deposited into clearing accounts.

The program accommodates the two types of collection techniques: in-house processing (State receives, processes mail and deposits checks) and lockbox processing (bank receives, processes, and deposits checks). There are benefits and drawbacks to each and ETA is not recommending one over the other. Each State is responsible for determining which method or combination of methods is more appropriate to its unique cash management environment.

Use of State lockbox arrangements must be supported by feasibility studies, including cost/benefit and break-even analyses, before compensating balances may be utilized to offset the cost of the service. These studies must examine not only conventional utilization of lockbox services but also partial utilization (such as for large employer contributions only). In addition, use of the Federal lockbox system, if one is located in the State, must be examined and included in the feasibility studies.

Compensating balances may not be used to offset the cost of non-standard bank services provided as part of a lockbox operation. Key punching of detailed quarterly wage information is the most common non-standard service offered by lockbox banks. If a State elects to have a lockbox bank perform a non-standard service, administrative funds for other State funds rather than

compensating balances must be used to compensate the lockbox bank.

2. Disbursement Systems and Disbursement Techniques for Benefit Payments. Disbursement systems are the mechanisms used to pay unemployment benefits.

All State UI disbursement systems must:

- a. Comply with Federal statutory requirements (limited withdrawal and prohibition of investment) and State legal requirements;
- b. Provide timely and accurate information to ease Department and State oversight functions;
- c. Minimize the time elapsing between the time funds are transferred from the State's account in the UTF and the time of check or warrant redemption;
- d. Minimize the level of ledger and available bank balances in the benefit payment account;
 - a. Permit control of benefit payment account funding within the SESA;
 - f. Provide accurate and timely information on check clearings and the level of ledger and available bank balances; and,
 - g. Maintain audit trails and databases required for audit checks.

There are three disbursement techniques for the benefit payment account:

- a. **Checks paid:** UTF funds are transferred to States the day checks or warrants actually arrive at the bank for presentation;
- b. **Delay of draw:** The State requisitions UTF funds based on a clearance pattern for checks or warrants that are anticipated to be presented the next day;
- c. **Checks issued:** UTF funds transferred to States to cover benefit checks or warrants issued that day.

States may utilize any disbursement technique compatible with the State's law, policy, or procedural requirements as long as utilization of that funding technique does not prohibit achievement of the cash management performance criterion.

3. Fund Transfer Systems. Fund transfer systems are the procedures and techniques related to the movement of funds from State clearing accounts to the UTF and from the UTF to State benefit payment accounts.

All effective fund transfer systems:

- a. Provide the capability to transfer funds from State clearing accounts to the UTF in a timely manner, consistent with the immediate deposit requirement;
- b. Provide the capability to transfer funds from the UTF to State benefit payment accounts in a timely manner, consistent with the limited withdrawal requirement;

- c. Ensure that funds drawn from or deposited into the UTF are accounted for in an accurate and timely manner;

- d. Ensure that accurate information on transfers is available to the States and UI in a timely manner in order to support management of funds, verification, and reconciliation functions performed by States, as well as oversight functions performed by the Department; and

- e. Base audit requirements and operations; and
- f. Apply to FECA funds as well as State unemployment funds.

All States must use the Treasury transfer system for their drawdown requests. That system currently includes SUDS to make daily, 24-hour on-line drawdown requests from Treasury and FEDWIRE to make same-day wire transfers of funds requested through SUDS.

4. Cash Position Management Systems. Cash position management systems are the procedures and techniques used to establish and control clearing and benefit payment account balances.

All effective cash position management systems:

- a. Establish and maintain a benefit clearings forecast capability;
- b. Provide for development of daily cash position to control the movement of funds and the level of compensating balances maintained;
- c. Ensure the regular review of bank account analyses, statements, and other reports for appropriateness of printing, volumes, credits, debits, and balance information; and
- d. Provide for the periodic review of accuracy of benefit clearings forecasting.

III. Federal Oversight Program

The Department's oversight of the cash management process includes quantitative annual measurement of State performance (in deposit and zero excess balance criteria), review and monitoring of required reports, periodic program reviews by ETA Regional or National Office staff (banking agreements, standard bank services, etc.), and provision of technical assistance and training to State staff responsible for UI cash management.

A. Quantitative Measurement of State Performance

As previously stated, quantitative measurement of State cash management performance will be performed for:

- 1. Timeliness of deposit of receipts (monies for the State unemployment fund) into State clearing accounts.

- 2. Excess balances (transfer/withdrawal).

Annually, State performance in meeting the cash management performance criteria will be assessed and the results of this assessment published in the Quality Appraisal report on State performance. States not meeting the performance criteria will be required to develop and implement corrective action plans for the purpose of meeting established performance criteria as part of their annual Program Budget Plan (PBP) submittal.

B. Record Keeping/Reporting

Section 1F, describes requirements for States to establish and maintain cash management records and make them available to the Department for inspection, examination, and audit.

Departmental monitors may periodically review those records for completeness, accuracy, and support of audit trails, in conjunction with the oversight program.

Examples of reports and records are accounting ledgers, bank statements, account analyses, other State bank reports, lockbox feasibility studies, and any other reports required by the Department under section 303(a)(6) of SBA.

C. Monitoring

The efficiency of State cash management practices and procedures will be monitored regularly by the National and Regional Offices of the Employment and Training Administration. The following key areas will be included in the monitoring and oversight activities associated with the program:

- a. Procurement process: solicitation, negotiation, execution of banking agreements;
- b. Standard bank services: compliance with definition and list;
- c. Levels of compensating balances: monthly review of reports to assess progress toward the goal of zero excess balances over measurement period;
- d. Cash management activities and procedures for collections, disbursement, UTF funds transfer, and UTF cash position management.

- a. **Procurement process.** State banking arrangements will be reviewed by ETA staff annually (or to coincide with State banking procurement cycles) to determine the extent to which necessary standard banking services are being procured, at reasonable prices, and whether such arrangements contain provisions and stipulations essential to efficient banking service to the State. These provisions may include:

1. Method of bank compensation;
 2. Bank assignment of availability of funds;
 3. Same day credit and immediate availability of funds transferred via the FEDWIRE system;
 4. Computation of bank compensation position;
 5. Carry forward of monthly credit for excess compensation.
- b. **Standard bank services used.** Department oversight will consist of reviewing requests for proposal for banking services, State bank agreements, required monthly cash management reports, and conducting periodic on-site reviews of State banking administration to determine the extent to which necessary standard bank services are being utilized by the States and are included in compensating balance agreements.

c. **Levels of compensating balances.** Compensation for bank services depends on a number of factors including bank services used, transaction volume, the earnings credit rate, reserve requirements, and pricing formula. Once all elements of compensation are defined, the level of compensating balances required will vary depending on type and volume of transactions and changes in the earnings credit rate and reserve requirement. Selected data items reported on the required cash management reports for clearing and benefit payment accounts can be reviewed, and the results used to guide State management of compensating balances during the year, to achieve the zero excess balance requirement and to prevent the build up of excess balances.

The levels of compensating balances will be reviewed monthly to ensure that State daily balance management minimizes the difference between actual and required compensating balances and the State meets the zero excess balance performance criteria. If monthly balance management indicates the State is experiencing difficulty, and may not meet performance criteria, the Department will provide technical assistance to assist the State meet the criteria.

d. **Cash management activities and procedures.** Federal staff periodically will review State cash management activities and procedures to assist States in improving their cash management programs. The expectations listed in Section II, State Program Components, identify the benchmarks against which State activities and procedures will be assessed in these reviews.

D. Training and Technical Assistance

ETA is planning a comprehensive schedule of technical assistance for States in the implementation and operation of the program.

Technical assistance has already begun during development of the program. States have been provided copies of the contractor's final report, which includes recommendations and guidance to improve State cash management, have attended briefings on contractor recommendations, and have attended Treasury training in SUDS.

The next steps in the technical assistance program are:

1. Formal training sessions for all States. These sessions, planned for the summer of 1990, will provide participants skills and knowledge in the following areas:
 - a. General cash management techniques;
 - b. Banking structures to support those techniques; negotiating and executing bank agreements;
 - c. Applications of those techniques to State UI cash management operations;
 - d. Meeting performance measures, completing reports;
 - e. Departmental oversight functions and responsibilities.
2. Issuance of technical assistance guides to assist States in program implementation and operation, e.g., bank procurement, daily cash management procedures, etc.
3. Limited contractor assistance in program operations and general cash management.
4. On-going technical assistance as needed.

States will be regularly apprised of technical assistance opportunities, and will be consulted in the development of the technical assistance program.

Signed at Washington, DC, May 7, 1989.

Robert T. Jones,
Assistant Secretary of Labor

Appendix A

Standard Bank Services

Definition: Standard bank services are defined as stand-alone, non-credit related services provided by commercial banks considered necessary/customary for maintaining a commercial bank account.

The general test to determine if a bank service is standard is whether said service must be performed by a bank as opposed to the election by a State to have a bank perform an added administrative function. If a review, audit, or other monitoring activity determines a service to be other than standard, a State would be required to

provide justification for using compensating balances to pay for it. If it is determined by the Department that the questioned service is not a standard bank service, the State must use alternative sources of financing—Title III administrative grant funds and/or other State funds to cover the cost of such services.

The following bank services have been determined to meet the foregoing definition of a standard bank service. Although these are common industry terms, some banks use different names to describe these generic bank services. It is important to note that the content of the bank services should be common despite differences in nomenclature.

Some peripheral bank services considered necessary in some States may not be included in the following list. Affected States should comment accordingly, and all such comments will be taken into account.

Account Analysis. A periodic statement from a bank, usually monthly (sometimes quarterly) showing balance information and bank service activity (charges and pricing). An account analysis typically includes:

- Average book (ledger or gross) balances
- Average float
- Average collected balances
- Federal Reserve Bank reserve requirements
- Earnings credit rate
- Detail of bank service charges

Account Maintenance. The monthly charge for maintaining a demand deposit bank account at a commercial bank. This service normally covers the cost of a single monthly statement mailed to the customer's address of record.

Account Reconciliation. A bank service that either partially or fully prepares the check paid information to be matched against your check issued records. Several levels of service are available, as described below. All service levels require that the checks have serial numbers printed on the lower, left hand portion of the check in the standard magnetic ink (MICR) format.

Paid Only Listing. Throughout the month, the bank captures and stores the paid check serial numbers, amounts and dates paid, to be reported at month-end (or at other specified frequency). The paid information is sorted and provided in serial number order. The paid check printout is forwarded to the customer along with the paid checks and the monthly bank statement. The bank

charges associated with the Paid Only reconciliation plan per account are:

Monthly Maintenance—fixed monthly charge

Monthly Minimum (see Controlled Disbursements)

Per Item—charge for each paid check

Paid and Outstanding Full

Reconciliation—The bank is provided with the checks issued information (e.g. serial number, amount and date issued). The bank matches the issued data against the checks paid during the month and produces: (1) A paid check listing, with each paid check matched to the issued check, and (2) an outstanding listing, in check serial order, showing the historical record of all checks issued but not yet paid. These reports accompany the monthly bank statement and physical checks. This service allows a quick reconciliation to your internal records.

Per Account Charges—Similar to above, but usually somewhat higher.

Other optional features of Account Reconciliation:

Sorting—Placing the physical checks into exact numerical sequence.

Per Item charge for sorting

Microfilming—Providing a microfilm of paid checks, in numerical sequence, to facilitate research of any paid check from the film rather than searching the physical checks.

Per Item charge for filming

Microfiche—Providing the paid and outstanding listings on microfiche or card instead of, or in addition to, the printed listing.

Magnetic Tape Output—Providing the paid check data on magnetic tape (serial number, amount, date paid) for input to an internal reconciliation program.

Per Item charge for tape creation

Per tape fixed charge per tape supplied, in addition to per item cost.

Diskette Input/Output—Special charges for accepting issue information or providing paid or outstanding report data on floppy diskettes instead of the standard magnetic tape.

Keytaping Issued Check Records—Bank charge for converting paper records of issued checks into machine readable form on magnetic tape for entry to Full Account Reconciliation. Often an option if a Payables Department cannot create a tape of checks issued.

Per Item charge for keytaping

Analysis Summary: A consolidation of all service and balance activity in all bank accounts at the bank for one customer. For non-check transactions, the bank will prepare and mail debit/

credit advices as a written record of the transaction entry.

Automated Clearinghouse (ACH)

Items: Large employer tax payments made through automated clearinghouse (magnetic tape) systems.

Checks Paid Services: Several charges can appear on an account analysis statement for checks-paid activity. These are: (1) A charge for each check paid by the bank shown as either Checks Paid or Item Posting, (2) a charge for any Stop Payment instruction sent to the issuing bank by either phone, letter or electronic message, and (3) a per check charge if the bank provides optional check retention service, where the bank holds paid checks in their vaults for several months rather than returning them with the statement.

Check Stock: If provided as regular service to bank commercial customers.

Collateralization Cost: Charge for the expense to the bank of maintaining certain securities to act as the safety backup for the operational balances maintained at the bank.

Collection Items: Charges for deposit of checks written on non-U.S. banks.

Controlled Disbursements: An account arrangement which provides early morning notification of checks that will be cleared on that day and which allows for funding of such checks on a same day basis. These accounts can be established as Zero Balance Accounts (ZBAs), funded by a master or concentration account. Charges for controlled disbursement accounts are similar to regular disbursement accounts, but also include additional services for special handling and reporting.

Per Account—A monthly maintenance charge on a per account basis. This charge is normally higher than a regular checking account maintenance charge. Many banks offer a graduated charge scale for maintaining multiple accounts (e.g. the first account is \$75.00 and each account thereafter is only \$35.00).

Monthly Minimum Charge—A bank may set a minimum monthly charge as a floor. Each month's charge is the higher of: 1) the minimum charge or 2) the total of the account maintenance and per check charges.

Checks Paid—The per item charge for processing checks drawn against the account.

Stop Payments—The charge for issuing a stop payment request on a specific check or range of checks that the bank has been instructed not to pay.

Daily Telephone Call—Telephone notification of the daily amount of checks presented and paid against the disbursement account. May be a fixed monthly charge or a per call charge.

Terminal Notification—Paid Check Notification via a PC or time sharing terminal instead of a telephone call. The bank posts the amounts to a central computer file, which is accessed via a dial-up terminal or PC/modem combination.

Courier, Armored Car, and Messenger Service: Self-explanatory.

Deposit Services: There are various services associated with the depositing of checks to a demand deposit account, they are:

Deposit Ticket—Charges for posting a single deposit ticket to the account. The deposit ticket can be prepared for a single check, or for multiple checks, and cash.

Deposit Items—There is a charge for processing each deposited check that varies according to the destination where the check is to be paid and whether the check amount is recorded on the check in magnetic ink characters (see encoded checks below).

An Encoded Check has the check amount printed on the lower right portion of the check in magnetic ink using the bank MICR font characters and is read by the bank's computer during processing. An Unencoded Check does not have the check amount recorded on the check when deposited and requires the bank to encode the check amount before it can be processed. Encoded checks cost less to process than Unencoded checks.

In order for deposited checks to be collected in an efficient and timely manner they are categorized as one of the following:

On Us Check—An item payable at the bank of deposit.

Local Clearing House Check—An item payable at another bank in the same city.

In-District Check—Payable at another bank in the same geographic region or Federal Reserve District.

Out-of-District Check—Payable at a bank not in the local region or Federal Reserve District.

FDIC Expense: Pass through costs charged by a bank to cover the FDIC assessment charges. These charges are based on the level of collected bank balances maintained in a demand deposit account.

Information Reporting—Terminal Initiated: Computer systems that provide balance and transaction reports on a previous and same day basis. The balance and transaction information can be accessed via a terminal, a personal computer (microcomputer) or transmitted directly from the bank's computer to the customer's computer.

The following categories of information are available:

Balances only—Information regarding the balances in the account. Typically the customer can view the ledger balance, closing available (collected) balance and the opening available (collected) balance.

Details—Information on all transactions processed through a customer's account. In addition to the balance information outlined above, the customer can view individual debits and credits, and descriptive information for each transaction.

Checks cleared—This report enables the customer to receive check number, dollar amount, and date paid information on all checks that have been paid during a specified period. The checks paid information reported is usually from the last statement cycle to the present.

Lockbox—Enables a customer to access lockbox deposit information (i.e., deposit amount and the corresponding availability of the lockbox deposit).

Timesharing costs—Since most of the balance reporting services are provided via timeshare systems (Telenet, Tymnet, etc.), some banks will pass on the costs incurred as a result of making the information available to the customer. The components of timesharing costs usually include both connect time and access time (the amount of time the customer is on the system).

Since each bank may have a different way of charging for Balance Reporting Services, the bank's costs should be reviewed at the time of negotiations. For example, almost all banks will charge on a per account/per month basis. Added to this may be per module, per field, etc., charges.

Information Reporting—Telephone Initiated. Allows the customer to access balance transaction information via telephone.

Balances only—Same as above, under "Information Reporting—Terminal Initiated".

Details—Same as above under "Information Reporting—Terminal Initiated". However, detail information is typically not provided by banks because of the time consuming and manual work involved in providing detailed information over the telephone.

Lockbox—Same as above under "Information Reporting—Terminal Initiated".

Bank charges for these services vary due to the bundling of services and should be discussed with the banks.

Insufficient Funds Checks. Items where the paying account did not have enough available funds to cover the full

amount of the check being presented for payment. The paying bank will return such items to the deposit bank.

Ledger Balance Overdraft—The total dollar amount of debits posted to the account exceeds the total of the opening balance plus that day's credits to the account, resulting in a negative closing balance. Banks discourage ledger balance overdrafts and will often levy a penalty or interest charge.

Lockbox Services—Considered a standard bank service only if supported by feasibility studies, including cost/benefit and break-even analyses not more than three years old which examine not only conventional utilization of lockbox services but also partial utilization (such as for large employer contributions only). In addition, one of the Federal lockbox systems, if one is located in the State, must be examined. (Note that lockbox services may not be provided with respect to Federal funds.)

A bank or third party receives mail at a specified post office box, processes the remittances, and deposits them in a specified bank account. Provided below are the bank services associated with lockbox service.

Wholesale Lockboxes—Are typically characterized as large dollar checks, low volume of items. Usually corporate to corporate or corporate to government type payments.

Retail Lockboxes—Characterized as small dollar checks, large volume of items. Consumer type payments.

Monthly maintenance—Charge imposed by the bank for providing the lockbox service.

Rental—Charge from the post office for the rental of the P.O. box. This charge is passed on to the customer by the bank providing the lockbox service.

Per Item—Charge for processing each check by the lockbox area of the bank.

Sorting—Banks can sort the remittance material based on specific instructions from the customer. For example, a rough sort could be remittances sorted by batch size or batch type. An example of a fine sort could be remittances sorted alphabetically by State.

Photocopy—The bank makes a photocopy of all checks received and processed during the day. This is standard operating procedure for a Wholesale Lockbox but not for a Retail Lockbox.

Return—Checks that are returned unpaid by the drawee bank for various reasons (i.e., insufficient funds, closed account, etc.).

Resubmitted returns—Standing instructions provided to the lockbox bank to redeposit checks that are

returned for the first time as Non-Sufficient Funds (NSF).

Documentation—Any documentation received by the lockbox bank (letters, notes, envelopes, etc.) that is returned to the lockbox customer.

Tape transmission—Invoice or payment information can be provided via magnetic tape or CPU to CPU transmission. Transmissions are typically provided for retail lockboxes but can also be supplied to wholesale lockbox customers.

Telephone notification—A request instructing the lockbox bank to provide a daily telephone call with the lockbox deposit amount, the total return item count, or other lockbox related information.

Packaging and Labelling of Paid Checks. Self-explanatory.

Photocopies of Checks and Research. For lost, damaged, or forged items.

Redeposit Items. Checks that have been returned once for NSF against the payee's bank account are re-deposited, generally by the bank, and sent through the collection system a second time.

Rejects. Checks that cannot be read by the bank's high speed computer equipment due to either physical damage or poor print quality in the magnetic ink characters on the bottom of the check. Rejected checks are manually processed by the bank.

Returns. Checks that have been returned by the paying bank as unpaid (closed account, no funds, stop payment, wrong account number, etc.) and debited back to the deposit account.

Statement Services. An additional service provided above the base service of the Account Maintenance, such as a weekly statement or a daily statement.

Wire Transfers. A means to electronically transfer money from account to account internally within one bank or from one bank to another. The recipient may be another account of the same party or a third party.

Outgoing Manual—A wire transfer moving funds from an account, based upon instructions that are initiated by a phone call, letter to the bank, FAX, or telex. There are two types of transfers—Repetitive and Non-Repetitive. A repetitive transfer is one which is made so frequently that the bank has set up a stored record of the transfer so only summary information regarding the amount and the recipient must be included in the request. All other information for the transfer is extracted from the stored record. For a non-repetitive transfer, all necessary information to complete the transaction must be passed on to the bank as part of the request.

Outgoing Terminal-Initiated—A wire transfer that has been initiated via a PC or communications terminal linked to a bank over a phone line. All necessary information to process the payment has been keyed on the terminal, which can handle both repetitive and non-repetitive transactions. The bank will provide the telephone numbers, instructions and often the computer software to create the transfer request on the terminal or PC. Since the terminal-initiated process is automated, the bank normally charges less than for a manually initiated transfer.

Incoming—A wire transfer that is credited to a bank account. The transfer may be from another account of the same party at the same or different bank, or can be an incoming third-party payment.

FEDWIRE—Electronic funds transfer system for Federal Government disbursements. FEDWIRE funds are immediately available upon receipt.

Same Day Advice—A notification of an incoming wire made the same day that the transfer and funds are received. The notification can be by phone (either local or long distance depending on the relative location of the receiving office and the bank) or can be an electronic advice using a FAX machine or PC terminal system that can connect with the bank.

Drawdown—A reverse debit wire transfer which draws the requested funds from the sending bank and credits them to the receiving bank. This type of wire transfer is initiated at the receiving bank and must be prearranged with the sending bank before the transfer can take place. Drawdowns are always repetitive transactions. The paying bank, under the prearrangement, will

change the paying account, and send the funds for credit to your account at the receiving bank. Drawdowns must normally be initiated early in the day to give all parties enough time to complete the transaction.

Zero Balance Account (ZBA)—A set of accounts (master and subsidiary) that are automatically linked to one another for the purpose of maintaining a zero balance in the subsidiary account. At the close of business each night, the subsidiary account balance is automatically set to zero by transferring funds to the master account, if the subsidiary account has a positive balance, or by funding the subsidiary account from the master account, if the subsidiary account balance is negative. For UTF purposes, the State account in the UTF is the master and the State benefit payment account is the subsidiary.

Concentration and Disbursement—Both concentration and disbursement accounts can be set up as subsidiary ZBA accounts, linked to a master balance account. In the banking configuration of a State employment security agency (SESA), the concentration account can be the master account and the disbursement account could be the subsidiary account.

Account Maintenance—ZBA accounts have a special maintenance charge, which can be a fixed maintenance charge each month, plus transaction charges. Charges associated with ZBA's are:

Per Account charge per each ZBA subsidiary account.

Per Transaction charge posted to the account for the transfers, e.g. one debit, one credit for each transfer between the master and subsidiary account, or Per

Transfer with one charge covering both sides of the transfer.

Appendix B

Measuring Performance Against Zero Excess Balance Criterion

States will be evaluated in meeting the zero excess balance criterion, within the acceptable $\pm 1.0\%$ tolerance for clearing and benefit payment accounts combined, for the period January through December. Performance evaluation will be completed after receipt of December bank management reports, due the tenth working day of January, and will be published annually in the ETA Quality Appraisal report. The publication will identify each State's percent deviation from the criterion using the formula:

$$\frac{R-A}{R}$$

Where:

R = Average required compensating balance for clearing and benefit payment accounts combined; and

A = Average actual compensating balance for clearing and benefit payment accounts combined.

States will be ranked in order of least to greatest deviation and States meeting the criterion ($\pm 1.0\%$) will be identified. States not meeting the criterion will be required to develop and implement corrective action plans to achieve the zero excess balance criterion.

Monthly required compensating balance information will be determined by means of the following formula:

$$\text{Required compensating balance} = \frac{\text{Total bank service charges} \times (\text{days in year/days in month})}{\text{earnings credit rate}}$$

This information is contained in Federally required reports, separately stated for State unemployment funds and Federal funds.

The following example illustrates the performance measurement process:

	Average required compensating balance	Average actual compensating balance
January	\$40,000	\$50,000
February	80,000	70,000
March	60,000	80,000
April	40,000	40,000
May	80,000	25,000
June	20,000	32,000
July	80,000	28,000
August	20,000	30,000

$$\frac{-\$42,416}{\$42,500} = -10\% \text{ deviation}$$

That deviation falls within the $\pm 1.0\%$ tolerance; the State has met the performance criterion.

Although the State has met the ETA zero excess balance performance criterion, it is likely that adjustments to

the following January balances will be required to remedy the undercompensation of the banks for the preceding year. Those adjustments will skew performance measurement and not accurately reflect State management of

	Average required compensating balance	Average actual compensating balance
September	30,000	31,000
October	80,000	68,000
November	54,000	48,000
December	80,000	41,900
Average for year	42,500	42,416

Applying the performance formula:

balances during the next calendar year, unless a comparable adjustment is made in that year's performance measurement computation.

(This is an example of bank undercompensation. States should

realize that banks often will not allow credits for overcompensation to be carried forward into the next year. The time to settle this issue is during bank agreement negotiation).

These situations will be handled by ETA including an adjusting entry during the computation of zero excess balance performance. The adjusting entry is determined by multiplying the difference between average required compensating balance and average actual compensating balance for the year by 12. In this example:

$$(\$42,500 - \$42,476) \times 12 = \$1,008$$

See the following example.

	Average required compensating balance	Average actual compensating balance
Adjustment from previous year	\$1,008	(¹)
January	30,000	362,500
February	42,500	42,000
March	40,000	37,500
April	67,500	65,500
May	60,000	62,000
June	70,000	72,000
July	67,500	67,500
August	60,000	58,000
September	47,500	30,000
October	44,000	40,000
November	46,000	40,000
December	48,500	46,500
Average for year	\$4,187	\$3,750

¹ Included in January balance.

$$\frac{\$54,187 - \$33,750}{\$54,187} = .77\%$$

State meets performance criterion.
Next year:

	Average required compensating balance	Average actual compensating balance
Adjustment for previous year	\$5,004	Included in January balance.

$$\$5,004 = (\$54,187 - \$53,750) \times 12$$

And so forth.

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